



STATE BOARD OF EQUALIZATION

STAFF LEGISLATIVE ENROLLED BILL ANALYSIS

Date Amended:	Enrolled	Bill No:	AB 2098
Tax:	Administration	Author:	Liu
Related Bills:			

BILL SUMMARY

This bill would establish an eight member Electronic Funds Transfer (EFT) Task Force, including a representative from the Board, to report to the Legislature on a plan for an EFT payment dispersal system.

ANALYSIS

Current Law

Electronic payments received. The Board is responsible for collection of state and local sales and use taxes and a variety of special taxes and fees. Accordingly, there are various Revenue and Taxation Code sections that authorize the Board to receive payments from tax or fee payers by EFT. In general, certain tax or fee payers are mandated to file by EFT while others can participate in the EFT program voluntarily.

Additionally, current Government Code section 6163 (a)(1) requires that all state agencies accept payment made by means of a credit card or other payment device. Government Code section 6163 (a)(2)(A) provides that a state agency may request that the director grant an exemption from subdivision (a)(1) if the agency determines that its acceptance of payments by credit card or other payment device would have any of the following results: (i) It would not be cost-effective; (ii) it would result in a net additional unfunded cost to the agency; or (iii) it would result in a shortfall of revenues to the State of California.

Electronic payments made. With respect to payment methods used by state agencies, the Prompt Payment Act (Government Code section 927) requires state agencies to pay undisputed invoices within 45 days of receipt or late payment penalties will be incurred. State agencies primarily use two payment methods when buying goods and services. One method is a typical paper process, which requires state agencies to go through many administrative functions and results in processing numerous individual invoices. The second method is a state charge card process, which allows state agencies to pay vendors at the point of sale and to receive payment performance and sales volume rebates for those purchases. The Department of General Services (DGS) has entered into an agreement with U.S. Bank allowing state agencies to make procurement transactions for goods and services through the purchase card system known as CAL-Card.

Proposed Law

This bill would add Part 5.6 (commencing with Section 14995) of Division 3 of Title 2 to the Government Code to provide for the establishment of an EFT Task Force (Task Force). The Task Force would prepare a report for the Legislature by April 1, 2008 regarding a plan for the development and implementation of a payment dispersal system utilizing EFT technology.

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The Task Force plan would include, but not be limited to, the following:

- Examination of all payments dispersed by the state and the methods currently used to transfer these funds.
- Recommendation on which payments should be included in a new electronic payment dispersal system.
- Examination of the cost of developing and utilizing a comprehensive electronic payment dispersal system, including, but not limited to, the costs and savings related to (1) float time; (2) transaction process time; (3) paperless transactions; (4) system development and implementation of a new electronic payment dispersal system; and (5) administration of a new electronic payment dispersal system.
- Recommendation on how the electronic payment dispersal system should be developed, including whether the state should contract for private administration of such system, develop a payment system within state government, or use other available means.
- Recommendation on which state agencies should be required to use the system and what, if any, exceptions should be provided.
- Examination and recommendation on incorporating the dispersal of funds for localities into the electronic payment system.
- Examination of and recommendation on the system's flexibility for future expansion of services.
- Examination and recommendation on incorporating electronic payment cards, or similar products, into the electronic payment dispersal system.
- Examination and recommendation on incorporating electronic check conversion into the electronic dispersal system.
- Recommendation on the timely development of the electronic payment dispersal system.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the State Controller's office and the California Small Business Association. The purpose of the bill is to create a system allowing state disbursements to be made electronically.
2. **Key Amendments.** The **August 24, 2006** amendments eliminated one element of the Task Force report. The **August 22, 2006** amendment narrowed the scope of the Task Force plan to focus on a payment dispersal system utilizing EFT technology. The **August 7, 2006 amendments** completely changed the bill to establish the Task Force to study the feasibility and desirability of a state-wide system for receiving and dispersing electronic payments. The previous provisions of the bill would have established a statewide electronic payment system. The **June 22, 2006 amendments** clarified the factors for determining the cost-effectiveness of joining the electronic payment system, and also clarified that the system would have allowed state agencies to receive checks or cash. The **May 26, 2006 amendments**

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provided that the online electronic payment system would have been implemented by January 1, 2009. The **May 18, 2006 amendments** provided that the DGS in consultation with, or in conjunction with, the Controller's office would develop and implement a comprehensive online electronic payment system based on certain factors. Both agencies would use their best efforts to minimize the financial impact for the users of the system, and DGS would be authorized to negotiate and enter into contracts necessary to receive or make electronic fund transfers. The **May 8, 2006 amendments** provided that all agencies are required to participate in the electronic payment system, unless they are approved for exemption by the DGS, or if a state agency or its director is unable to enter into the contracts on acceptable terms, or if a state agency has established a comparable electronic payment system. The bill would allow the participating state agencies to receive and make *all* payments electronically through the online payment processing system. The **May 1, 2006 amendments** provided state agencies the option of participating in the electronic processing system. Additionally, the DGS was identified as the agency to negotiate the best possible provider rates on behalf of all state agencies.

3. **The Board's functions are more geared toward receiving EFT payments, not dispersing them.** Currently, about 80 percent of the total revenue for sales and use taxes and the special taxes and fees are paid by EFT. The sales and use tax, the Board's largest tax program, involves businesses that primarily collect the sales tax from the purchaser and remits these funds to the Board. In general, these organizations do not want to overcollect, nor do they want to overpay the tax. Therefore, unlike some of the other agencies on the Task Force, the Board does not deal with a large volume and quantity of EFT disbursements. While the Board has had a long and successful experience in EFT receipts, it is not as knowledgeable or experienced in EFT disbursements.

COST ESTIMATE

To the extent that a Board representative would be required to participate in the Task Force, some costs may be incurred. The bill charges the Task Force with the complicated and difficult task of providing a plan for the development and implementation of an EFT payment dispersal system.

REVENUE ESTIMATE

The bill would not affect the revenues collected for the state by the Board.

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